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INTRODUCTION

The Office of Internal Audit performed an audit of Schoolcraft/Stansbury District, Wayne County FIA for the period October 1, 1998 through October 15, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. The Schoolcraft/Stansbury District had 119 full time equated positions (FTE's) at the time of our review. The Schoolcraft/Stansbury District provided assistance to an average 17,108 recipients per month during FY 1998, with total assistance payments of \$32,543,684 during that year.

SCOPE

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Schoolcraft/Stansbury District, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

| | |
|-----------------------------|--------------------------|
| Client Processing | CIS/ASSIST Security |
| Cash Disbursements | Cash Receipts |
| General Ledger | Accounts Receivable |
| Safe & Controlled Documents | IRS Information Security |
| ENP/SER Payments | Payroll Review |
| Telephone Usage | Medical Transportation |
| Procurement Card | |

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Schoolcraft/Stansbury District internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

DISTRICT OFFICE RESPONSE

The management of Schoolcraft/Stansbury District has reviewed all findings and recommendations included in this report. They indicated in a phone conversation on December 13, 1999 that they are in general agreement with the report, and that corrective action is being taken for all items in the report.

FINDINGS AND RECOMMENDATIONS - COMPLIANCE

The following are areas where we found that the Schoolcraft/Stansbury District was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

Mail Opening

1. Schoolcraft/Stansbury District had two people open the mail. However, the same person who opened the mail also completed the Record and Disposition of Checks/Warrants (FIA-61). Accounting Manual Item 431 states that one person should open the mail, and the second should log the items on the FIA-61. Having the second person log in the warrants helps to ensure that all items received are recorded.

WE RECOMMEND that Schoolcraft/Stansbury District have one mail clerk open the mail and the second mail clerk log the returned state warrants.

Daily Mail Record of Cash Receipts

2. The Schoolcraft/Stansbury District office did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit. Instead the District used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail. Accounting Manual Item 431 states that an FIA-4729 is to be used to record negotiables received for deposit.

WE RECOMMEND that the Schoolcraft/Stansbury District record all negotiables for deposit on the FIA-4729.

FIA-61 Log

3. The Schoolcraft/Stansbury District did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61. We also noted that the posting of disposition information to the FIA-61 was not up-to-date. Keeping the posting up to date facilitates the reconciliation process.

WE RECOMMEND that the Schoolcraft/Stansbury District perform a weekly reconciliation of checks/warrants on hand to the FIA-61, and keep posting of disposition information on the FIA-61 up-to-date.

Returned Warrants

4. Schoolcraft/Stansbury District maintained returned state warrants for 30 days instead of 10 days, as required by Accounting Manual Item 431. Voiding the returned state warrants after 10 business days encourages immediate disposition and provides improved accountability for the warrants.

WE RECOMMEND that Schoolcraft/Stansbury District dispose of returned state warrants within 10 business days.

Frequency of Deposits

5. Schoolcraft/Stansbury District did not make bank deposits weekly, as required by Accounting Manual Item 430. Rather, the district was making deposits once or twice per month. We found one check that was dated September 3, 1999 and was still on hand as of September 29, 1999. Depositing the receipts weekly increases interest earned and helps to prevent funds from being misplaced or stolen while on hand in the local office.

WE RECOMMEND that Schoolcraft/Stansbury District deposit its cash receipts at least once each week.

Accounts Receivable Reconciliation

6. Schoolcraft/Stansbury District did not properly reconcile the Accounts Receivable subsidiary ledgers with the control account in the general ledger. We reviewed 5 delinquent account receivables and found one account where the customer paid the account in full, but the ledger still showed an amount owing.

WE RECOMMEND that Schoolcraft/Stansbury District reconcile the outstanding account receivable subsidiary ledgers to the general ledger totals on a monthly basis.

Supporting Documentation for Payments

7. Schoolcraft/Stansbury District did not always attach original supporting documentation to the FIA-849 on file in the Accounting Office, as required by Accounting Manual Item 404. An invoice or other supporting documentation was not attached for 13 of the 78 payments we reviewed. Attaching invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Schoolcraft/Stansbury District attach an original invoice/bill to the Accounting Office copy of the FIA-849.

Payment Authorization Files

8. Schoolcraft/Stansbury District did not maintain the files of Supplemental Payment Authorizations (FIA-13) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the district was maintaining the FIA-13's in alphabetical order by month. Maintaining the FIA-13's in either alphabetical or case number order provides an audit trail to easily detect how many supplemental payments a client has received, and makes the FIA-13's easy to retrieve if needed at a later date.

WE RECOMMEND that Schoolcraft/Stansbury District maintain the FIA-13's in alpha order by year instead of by month.

Controlled Document Log

9. Schoolcraft/Stansbury District did not properly control blank documents. We noted that the district did not properly record the Balance on Hand on the Controlled Document Log (FIA-4070) for Official Cashier Receipts (FIA-3531), Purchase Order/Invoices (FIA-2083), and ESP Bus Transfers as required by Accounting Manual Item 403. Proper use

of the Controlled Document Log help to ensure that loss, theft, or misuse of controlled documents, would be detected on a timely basis.

WE RECOMMEND that Schoolcraft/Stansbury District properly record the items on hand in the Balance on Hand column for all controlled documents.

Security Officers Log Report (PD-180)

10. Schoolcraft/Stansbury District did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). Family Independence Agency Letter L-97-063 requires the reconciler to review changes listed on this report to signed Security Agreements to ensure that all changes are accurate and properly authorized. For internal control purposes, the reconciler must not be the CIS Security Coordinator or have update capability on CIS.

WE RECOMMEND that Schoolcraft/Stansbury District have an independent person reconcile the PD-180 report to revised Security Agreements.

CIS/ASSIST Security Agreements

11. Schoolcraft/Stansbury District did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for all employees who access the Client Information System (CIS), as required by L-Letter 97-063. For 19 out of 115 agreements we reviewed the status code indicated on the FIA-3974A did not agree with the current status code listed on the Operator Identification Report (PF-011). Forty-nine out of 115 employees did not have a FIA-3974A on file. The ASSIST Security Agreements and Enrollment Profile (FIA-3720, FIA-3721) were not completed for 8 and 20 employees respectively, who had access to ASSIST. According to L-Letter 97-156 employees who have access to the

ASSIST system are to have current, complete ASSIST Security Agreements and Profiles on file.

WE RECOMMEND that Schoolcraft/Stansbury District ensure that all employees who access CIS and ASSIST have complete, accurate, up to date FIA-3974A's, FIA-3720's and FIA-3721's.

Knowledge of IRS Security Procedures

12. The newly hired mail room staff, Family Independence Specialists (FIS), and Eligibility Specialists (ES) at the Schoolcraft/Stansbury District were unaware of who the designated staff person is, and the proper procedures to follow for confidential information received from the IRS. The PAM Manual Item 803 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Schoolcraft/Stansbury District familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS

The following are areas where we have identified a control weakness at Schoolcraft/Stansbury District, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

CIS Status Codes

13. One fiscal clerk at the Schoolcraft/Stansbury District had an FLM status code on the Client Information System (CIS), and also reconciled the ampersand transactions and

supplemental payments on the Transaction Control Listing (MA-010). This status code would allow the fiscal clerk to make changes to client cases and process payments to those same cases, with no independent review of the transactions.

WE RECOMMEND that the Schoolcraft/Stansbury District change the fiscal clerk to inquiry only status on CIS.

Backup Designated Staff Person

14. Schoolcraft/Stansbury District did not have a backup Designated Staff Person (DSP) for IRS Security. The district should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that Schoolcraft/Stansbury District appoint a backup DSP for IRS information security.

MA-010 Reconciliation - Openings and Reopenings

15. Schoolcraft/Stansbury District did not reconcile a sample of new case openings and reopenings listed on the MA-010 Report to case documentation and eligibility as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A sample reconciliation of openings and reopenings provides assurance that only their assigned workers opened cases.

WE RECOMMEND that Schoolcraft/Stansbury District reconcile case openings and reopenings on the MA-010 Report to case file documentation and eligibility.

Safeguarding of Delivered Mail

16. Schoolcraft/Stansbury District did not safeguard the mail when received in the office. The mail was delivered to the front desk by the postal service employee and was easily accessible to all staff. The Primary Internal Control Criteria for FIA Local/District Office Operations indicates that the postal service employee should deliver the mail to a designated supervisor/manager who places the mail in a secure location until mail staff can open the mail.

WE RECOMMEND that Schoolcraft/Stansbury District provide a secure area for the mail to be delivered and held until the designated mail clerks can open the mail.